



MAYOR JON MITCHELL

Fiscal Year 2017 Budget Address

City Council Chamber

Wednesday, May 11, 2016

[Remarks as Prepared]

Thank you, Council President Morad, honorable Members of the City Council, department heads, invited guests, and residents of New Bedford.

I am pleased to stand before you tonight to present a municipal budget for the City of New Bedford for Fiscal Year 2017.

This year's budget, more than the previous four budgets I have proposed, is the product of a highly collaborative effort between the City Council and my administration. Our effort, yours and mine, has been grounded in the collective recognition that the

City must continue to steer itself through rough financial waters, which requires a deliberate approach by both branches of municipal government to develop a budget that is aimed squarely at long-term stability. While budgeting is an annual exercise, budget decisions must be made with the long run in mind.

Unfortunately, too many American cities, including some in this state, have forgotten this, and have landed themselves in deep trouble. We in New Bedford have been living through a period of tight finances in part because of past neglect and poor decisions. There are hundreds of millions of dollars of deferred building maintenance, still more unfunded future retiree benefits, and not enough funding for schools and basic services. Like it or not, we have to deal with it.

What makes it harder is that in Massachusetts, cities and towns wield far less control over their finances than their counterparts in many other states. Approximately 73% of our General Fund budget this year is predetermined by state mandates and regional agreements. When you set aside the

public safety department budgets, nearly thirty non-public safety departments split the remaining 13% of the total budget. Cuts to those mostly small departments can cripple the delivery of important services but yield little in the way of overall budget savings.

Meanwhile, revenue to the City has not kept pace with rising costs. Unrestricted state aid has remained relatively flat. And the ongoing expansion of our local economy has not yet translated into sufficient new revenue from property taxes.

So we have made sacrifices, as we must. Over the last few years, certain city departments have been cut to the point where their ability to function is becoming compromised, and tax payers have been imposed upon, too.

And city government has shrunk. Today, there are 136 fewer positions paid for out of the general fund than there were in 2009, and far fewer than the municipal workforce in the early-2000's.

In the long run, neither indiscriminate program cuts nor reflexive tax increases will lead to long term financial sustainability. We've achieved tremendous efficiencies in city government, but efficiencies can take us only so far. If we want to keep a library in a particular neighborhood, for example, there's no getting around the fact that it must be staffed with a librarian. You can't downsize the position away. And of course, not just anyone off the street can do the job. Competing with other communities for high performing municipal employees, which is exactly what our residents expect and deserve, costs money.

On the other hand, we can't continue to ask more of tax payers and expect that the City's budget decisions won't materially affect their quality of life or the competitiveness of their businesses. Achieving sustainability by balancing these competing interests requires thoughtful, and often difficult decisions, which must be explained to the public with candor and clarity.

Now for the good news: under the skillful guidance of our CFO, Ari Sky, and his team, New Bedford's fiscal outlook is in fact growing more stable. We have built our fund balances, implemented long term capital planning for the first time in the city's history, and raised our bond rating higher than it's ever been. Through thoughtful decision making and a long term focus, this fiscal year neither dramatic cuts nor a spike in the tax rate will be necessary. Our City's residents can have confidence that our approach is making a difference.

Key Drivers

The FY 2017 budget process focused on identifying core City needs and ensuring the provision of adequate services for the residents of New Bedford. Our priorities in developing the FY 2017 budget were grounded in the knowledge that the impact of an improving economy can be uneven. Many in our City continue to fight each month to make ends meet, paying the taxes, insurance and utility bills that allow them to remain in their homes.

The combination of unfunded mandates, nondiscretionary expenses and the costs of maintaining essential services have resulted in increases to the City's tax levy over the past two years. The FY 2017 budget restrains the growth in spending to ensure that the cost of government remains affordable, and supports key priorities.

This year's general fund budget totals some \$312 million. The general fund budget benefits from a \$9.1 million increase in state funding, which consists largely of additional support for the School Department. As in recent years, this year's budget has been marked by considerable restraint in spending.

New spending was limited to certain key areas, including some over which the City largely has no control.

First, we continue to deal with the fact that the Federal SAFER grant, which originally funded seventy firefighter positions, expired in mid-FY 2016. Since 2012, the City has worked hard to avoid firefighter layoffs and to reduce its reliance on the SAFER grant to staff the Fire Department, as federal funding inevitably will come

to an end at some point. By incrementally moving firefighters to the General Fund payroll, we have succeeded in maintaining public safety services and haven't laid off a single firefighter.

However, it has come at considerable expense to the City: last year, the Fire Department's budget increased by 18%, by far the largest of any City department, which was exacerbated by a generous arbitration award to the firefighters' union that significantly raised firefighter salaries. In FY 2017, we will continue to move firefighters to the General Fund, and the Fire Department will again see a significant and disproportionate increase in its budget.

At the same time, we are pursuing a SAFER grant renewal to fund twenty-one positions, in the hope that the General Fund will be able to support the entire department at the end of the two-year grant term.

All in all, the disproportionate funding of the fire department over the last two years, which includes millions of dollars in new equipment, repairs to existing stations and the planned

construction of a new station, represents the single most comprehensive commitment to fire protection by an administration and a city council in decades, and our residents will be better protected than ever when all of the plans are in place.

Other, albeit more modest, increases in public safety were, in my view, also necessary. These included additional resources in Emergency Medical Services to expand ambulance services to meet demand, a measure which, by the way, should easily pay for itself through increased transport revenue. We also have proposed funding for increased enforcement in the Health Department to help root out the escalating problem of synthetic marijuana, as well as funding for strategic planning in the police department, as that department transitions to new leadership.

These key investments in public safety will be well spent.

The second major set of budget drivers are non-discretionary items and underfunded mandates, especially charter school obligations. The growth in the City's obligation to fund charter schools is exacerbated by the State's failure to meet its statutory

obligation to partially reimburse localities' costs. As a result, the City's net obligation will increase from \$9.4 million in FY 2016 to \$10.2 million in FY 2017.

In addition, the City's pension assessment will grow by approximately \$1 million. With a pension liability that today is only 43% funded, this number will continue to grow in the coming years.

Spending in our schools will increase some six percent or \$7.7 million, but it is supported by a significant boost in state aid as a result of a recounting of English Language Learner students. While the school budget is set at the state mandated net school spending level – and certain areas require more support still – we were able to fund important areas that will accelerate the reform effort, including the expansion of instructional technology, the addition of twelve ELL teachers, and the re-establishment of full day Fridays in the elementary schools.

It also should be noted that the FY 2017 budget benefited from a range of efficiency initiatives that we have implemented over the

past four years. These reforms have helped restrain spending, ensure accountability and have improved transparency throughout the City government. The list is long but they prominently include the City-wide performance measurement initiative, the City's solar energy program, voice-over-internet service, payroll modernization, and targeted reorganization of city management.

This year we will build on these successes by reorganizing the City's refuse enforcement function, consolidating electrical repairs, and providing necessary support to the City's long-range planning activities.

Looking Ahead

A primary theme of the FY 2017 budget is the City's movement toward sustainability. The goal is to enable the City to provide the first rate services our residents expect, while easing the demands on the City's tax payers, residents and businesses alike, by restraining spending and growing the tax base over time. Getting to this point will require all of us to think beyond the

current budget cycle, anticipate challenges, and plan well. There are a few clouds on the horizon that need closer attention.

Among the more ominous challenges we face is the looming liability associated with retiree health care. Although the most recent actuarial valuation report showed that our reforms in healthcare resulted in a remarkable 25% reduction of the long term liability, the unfunded liability nevertheless remains daunting, standing at \$424.8 million. The City Council's establishment of an OPEB trust in 2015 allowed us to provide a modest initial commitment to reducing this figure. However, further action will be required on the part of the bargaining units to achieve meaningful reform to bring post-retiree benefits costs to a manageable level and to ensure that health benefits will be available to employees upon their retirement.

The City must also remain prepared for the unexpected. My administration has been committed to establishing and maintaining a robust stabilization fund, increasing the fund's balance by 75% since 2011, and the City Council, for its part, has

been fully engaged in adopting a strong reserve policy. We are continuing to make efforts to ensure that the City is able to utilize the strengthening economy to improve our overall financial position.

Concluding Thoughts

The development of the FY 2017 budget has been greatly aided by the early and continuous engagement of the City Council, which entailed a series of discussions made possible in part by the establishment of the Ad Hoc Budget Review Committee. I believe that this effort has been a positive development for the City, and look forward to continuing the partnership in the weeks ahead. I wish to thank the Council for the energy and thoughtfulness it brought to the process, which has yielded a better, more refined budget proposal.

The key for us now is to understand that the rebuilding of our City is taking shape. Together we're making the right moves, but it takes time, and may require some more sacrifices. We are clearly on a healthier, more sustainable path that will lead to a

more effective and responsive city government and a higher quality of life for our residents.

Thank you for your consideration. I look forward to our work together in the weeks ahead.